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The New Partners

Acquiring Properties through Oil Payments and Related Methods

Are You Ready for an Audit?

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Certified Public Accountants

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The New Partners

On October 1, 1953, six names were added to the list of members of the firm—R. Kirk Batzer and George S. Shegog in New York; Roger F. Burd and Harry C. Zug in Philadelphia; J. Wesley Huss in Louisville; and James F. Sanborn, Jr. in Boston. Each of these men has met his responsibilities to the firm and to its clients in the fullest measure and it is with pleasure that we welcome them into the firm and wish for them many years of enjoyable association in their new relationship.

PRIOR SINCLAIR

R. Kirk Batzer

R. Kirk Batzer was born in Bismarck, North Dakota, on November 28, 1915. He attended public schools in North Dakota and Minnesota and continued his education at Macalester College, St. Paul, Minnesota and at Cornell University. He received a bachelor's degree from Cornell University in 1935 and a master's degree from Syracuse University in 1940. He joined the staff of the New York office in 1940, and has since then been a member of that organization. From July, 1941 to October, 1945 he served in the United States Navy, principally as a flight engineer and engineering officer with the Naval Air Transport Service, attaining the rank of lieutenant.

He is a certified public accountant in New York and a member of the American Institute of Accountants and the New York State Society of Certified Public Accountants. He has served as chairman and member of some of the state society's technical committees.

Mr. Batzer is married, has two sons and two daughters and lives at Packanack Lake, Wayne Township, New Jersey.

Roger F. Burd

Roger F. Burd was born August 11, 1911 in Shamokin, Penna., where he attended the public schools and was graduated from Shamokin High School. In 1931 he received the degree of Bachelor of Accounts at the College of Accountancy of Rider College.

He has been associated with our Philadelphia office for almost 22

years, having started in the Report Department on New Year's Day, 1932. Three years later, following completion of the office staff training course, he became a member of the staff.

Mr. Burd became a certified public accountant of Pennsylvania in 1940. He is a member of the American Institute of Accountants and the Pennsylvania Institute of Certified Public Accountants, having served on several committees of the latter organization.

He is married and, with his wife, son and daughter, resides in Jenkintown, a suburb of Philadelphia. He has been interested in Boy Scout and church activities, at present serving as Chairman of the Finance Committee of the church he attends.

J. Wesley Huss

J. Wesley Huss was born on January 4, 1909. Originally from Cleveland, Mississippi, he received his early education in the public schools in Urbana, Illinois. He was graduated from the College of Commerce, University of Illinois, in 1931 and joined the staff of the Rockford office of the firm in that year. In 1946, Mr. Huss was transferred to the Louisville office and has served as Manager of that office since that time.

Mr. Huss is a certified public accountant in the states of Kentucky, Tennessee, Indiana and Illinois, and is a member of the American Institute of Accountants and the Kentucky and Illinois Societies of Certified Public Accountants. Mr. Huss is immediate past president of the Kentucky Society of Certified Public Accountants and is serving his sixth year as a member of the Board of Directors of that Society. He has also served as a Member of Council from Kentucky in the American Institute of Accountants and has been active in committee work for both the Institute and the Kentucky and Illinois State Societies.

He is a member of the Board of Directors of the Louisville Credit Men's Association and the Louisville Chapter of the National Association of Cost Accountants and is presently Vice President of the Louisville Chapter of the National Association of Cost Accountants. Mr. Huss is also a member of the American Accounting Association, the Estate Planning Council of Louisville, the Executives Club, Torch Club, the Pendennis Club, and Big Spring Country Club. Mr. Huss is married and has two children, a boy and a girl.

Harry C. Zug

George S. Shegog

James F. Sanborn, Jr.

James F. Sanborn, Jr.

James F. Sanborn, Jr. was born in Revere, Massachusetts in 1906. His boyhood summers were spent in New Hampshire, many in camp on Lake Winnipesaukee. After attending Mount Herman School he entered Dartmouth College in the fall of 1924, received a B.S. degree in 1928 and M.C.S. from the Amos Tuck School in 1929. He retains an enthusiastic interest in sports and, once away from his desk, delights in playing golf and bridge and taking fishing trips into the wilds of Maine. The Sanborns live in Wollaston, Massachusetts and have two daughters and a son.

He joined the staff of our Boston office in September, 1929 and since that time he has devoted much of his time to the accounting and tax problems of our clients in the public utility and investment company fields.

Mr. Sanborn is a certified public accountant in Massachusetts, is a member of the American Institute of Accountants and the Massachusetts Society of Certified Public Accountants.

George S. Shegog

George S. Shegog was born in Philadelphia, Pennsylvania in 1916 and received his grade and high school education in that city. He attended the Wharton School of the University of Pennsylvania where he was a member of the Junior and Senior Honorary Societies, Beta Gamma Sigma and Phi Kappa Sigma fraternity.

Upon being graduated by the University in 1937, he was employed by Public Service Electric & Gas Company, Newark, New Jersey as a member of the Comptroller's department. In 1941, he joined our New York office staff.

He is a certified public accountant of New York, New Jersey and Illinois and is a member of the American Institute of Accountants.

Mr. Shegog is married and has two children, a boy and a girl, and resides in East Orange, New Jersey.

Harry C. Zug

Born in Philadelphia, Pa. on July 2, 1913, Harry C. Zug was educated at Chestnut Hill Academy, Dickinson College, and Harvard Business School, from which he was graduated in 1936. At Dickinson, he became a member of the Sigma Chi and Omicron Delta Kappa fraternities.

(*Continued on page 23*)

Acquiring Properties through Oil Payments and Related Methods*

BY GODFREY W. WELSCH
(Dallas Office)

Introduction

With increasingly higher tax rates, many individuals and partnerships, owners of oil and gas properties, have come to the realization that they can obtain more "after tax" money from a sale of their properties, with proceeds taxed at capital gain rates, than would result from continued operation of the properties. This has resulted in many good properties becoming available for purchase at reasonable prices. But even though a property is offered at a reasonable price, acquisition of a good property for cash often requires more funds than the purchaser is able, or desires, to tie up in a particular venture. Therefore, interest in various methods of financing the acquisition of a property out of proceeds from its own production or from future income of the acquiring company, has been growing.

The uses of oil payments and related methods of acquiring financial assistance in the acquisition and development of oil properties is not new. Today more than ever, however, the oil industry has established itself as an excellent credit risk. Bankers and investors, knowing that modern scientific methods are used for estimating potential recovery from specific properties, and that advanced techniques assure maximum recoveries, welcome a self-liquidating loan to a competent operator on producing properties.[1]

There is thus a need for financing the acquisition of oil properties and a source of available funds. It is the purpose of this paper to examine into some of the financing methods which have been used and to analyze first the tax effects and secondly the accounting treatment as to both buyer and seller.

Basic Principles

All of the financing methods have as their basis either of two general principles or a combination of both of them. Under the first principle, the purchaser is deemed to have acquired the entire interest of the seller in the property and to have incurred a liability for the unpaid portion of the purchase price.

*Based on a paper presented at the 33rd Annual Convention of the American Petroleum Institute, Chicago, Illinois, November 10, 1953.

[1] Remarks made by Jno. E. Kilgore, Dallas, Texas, at the Mineral Section of the American Bar in Boston, August 26, 1953.

Under the second principle, the purchaser is deemed to have acquired only a portion of the interest of the original vendor of the property, to be enjoyed either concurrent with or subsequent to the paying out of the interest not acquired. A combination of the principles results where there is a transaction split in its nature or where there is a contingent liability on the part of the purchaser to make payments under certain circumstances.

The classification of transactions under one or the other of the principles is not always simple and sometimes a transaction may be deemed to have the characteristics of a method based on the first principle for accounting purposes while for tax purposes the law requires that it be treated as being based on the second principle.

Acquisition with Borrowed Funds

Perhaps the simplest form of financing is the acquisition of property with funds borrowed from a bank or insurance company. This is an example of the application of principle one. The purchaser acquires the entire property and is obligated to pay the amount of the loan regardless of whether the production from the property is adequate. Usually, as security for the transaction, the lending institution takes a deed of trust on the property and requires the assignment of a substantial portion of the proceeds of the oil runs to be applied against the debt. Sometimes, where the security is deemed insufficient, other properties are included in the deed of trust and oil runs from other properties are assigned against the loan. A characteristic of this type of transaction is that in case of default, the lender can foreclose and satisfy the loan from the proceeds of the sale of the pledged properties.

Despite the fact that a substantial portion of the oil runs have been assigned to the lending institution, the proceeds from the sale of all of the oil run from the property are considered to be gross income to the operator. Because there is a source, other than the oil in the ground out of which the loan might be repaid, the lending institution does not have any economic interest in the property.[2] The operator must therefore account for all the income from the property. Deductions allowed against this gross income include all lifting costs, depletion and interest on the loan.

The seller of the property, having received all cash for his interest in the property, realizes long-term capital gain.[3] It is assumed, for all examples in this paper, that the vendor of the property is not a dealer in oil and gas properties and has held the property over six months.

[2] *Anderson v. Helvering* 310 U. S. 404.

[3] I. R. C. Sec. 117 (j); I. T. 3693, 1944 C. B. 272.

A variation of the above transaction is encountered where the seller receives part cash and part notes in exchange for his property. To the purchaser, the effects are exactly the same as if the financing had been done by a lending institution. However, if the seller has received less than 30% of the sales price of the property in the year of sale, he may elect to report the sale on the installment basis, paying a tax in each year only upon that portion of the gain reflected in the payments received.[4] Obligations of the purchaser are not considered in determining the amount received in the year of sale.

Consideration Payable in Oil—Types of Contracts

Often, all or a substantial portion of the consideration paid for a property is payable in oil or in the proceeds from the sale of oil. Transactions of this nature fall into three general categories:

(a) Where the oil to be used in payment for the property is to come from the property purchased, if and when produced.

(b) Where the oil to be used in payment for the property is to come partly from the property purchased and partly from other specifically designated properties, if and when produced.

(c) Where there is no specific designation as to the source of the oil, the payment being due regardless of production from the property purchased.

[4] I. R. C. Sec. 44.

Each of these three types of transactions has different tax and accounting treatments and must be considered separately.

Where the consideration to be paid in oil, stated in either dollar value or barrels of oil, is to come from the property purchased or from other specifically designated properties, and is payable only if and when oil is produced, with no guarantee of payment, and with no other source except oil from such designated properties out of which payment can be made, the holder of the contractual right to receive such oil or the proceeds thereof is deemed to have an "in-oil payment," or "oil payment" as it is more commonly called.[5] Such an oil payment represents the ownership of an economic interest in oil and gas in place with the holder thereof being entitled to depletion.[6] An oil payment may be reserved when a larger economic interest in the property is sold,[7] or an oil payment may be carved out of the larger economic interest and itself assigned while the remainder of the interest is retained.[8]

[5] *Anderson v. Helvering* 310 U. S. 404; Montgomery's Federal Taxes, Corporations & Partnerships 1951-52, Vol. I, p. 1003; G. C. M. 24849, 1946-1 C. B. 66.

[6] *Thomas v. Perkins* 301 U. S. 655; *Com'r v. O'Shaughnessy, Inc.* 124 F(2d) 33; *Lee v. Com'r* 126 F(2d) 825; *Godshall* 13 T. C. 681.

[7] *Thomas v. Perkins* 301 U. S. 655.

[8] G. C. M. 24849, 1946-1 C. B. 66.

The "Carved-Out" Oil Payment

Assume that the company which purchased property with funds borrowed from a lending institution wishes to rid itself of the liability for the loan. If it can "carve out" of its working interest an "oil payment" payable when and if oil is produced and sell such oil payment for sufficient funds to satisfy the loan, it can thereby relieve itself of the unconditional liability to pay represented by the loan.

What are the tax consequences of such a transaction? The Treasury has issued rulings stating that "the assignment of any in-oil payment right (not pledged for development) which extends over a period less than the life of the depletable interest from which it is carved, is essentially the assignment of expected income from such property interest" with the proceeds taxable as ordinary income subject to depletion.[9] The rulings were believed necessary by the Treasury Department to stop a practice which began to have widespread usage by the oil industry under the impact of the high tax rates during World War II—namely, the use of oil payments as a device for turning ordinary income into capital gain.[10] Operators were selling estimated production in the form of short-term oil payments and reporting the proceeds as capital gain.

The rulings were not based on any cases in point or on any authoritative law. In fact, prior to the issuance of the first ruling in 1946, three Board of Tax Appeals cases—one of which was affirmed by the Fifth Circuit—held that a capital gain was realized when an oil payment was sold.[11] Many tax practitioners have attacked these rulings as being contrary to the law.[12] In a very recent case, the Treasury's position was upheld by a District Court but the primary basis for the decision was that on the facts of the case, the sale was not an arms-length transaction.[13] This decision is being appealed to the Fifth Circuit. At least one other case, in which the Treasury's position will be attacked, is currently docketed in the Tax Court.[14]

[9] I. T. 4003, 1950-1 C. B. 10; G. C. M. 24849, 1946-1 C. B. 66.

[10] James T. Williams, II—*Assignment of Leasehold, Royalty and Oil Payment*—Second Annual Institute of Oil and Gas Law and Taxation—Southwestern Legal Foundation, p. 513.

[11] *R. E. Nail*—27 B. T. A. 33 (acq. XII-1 C. B. 9, acq. withdrawn N. A. 1949-1 C. B. 6); *Ortiz Oil Co.*—37 B. T. A. 656 aff'd C. C. A. 5, 102 F(2d) 503; *Majestic Oil Corp.* 42 B. T. A. 659.

[12] Kenneth G. Miller—*Selling Oil Payments—Taxes*, The Tax Magazine, March, 1949, p. 185; George E. Ray—*Assignment of In-Oil Payment Rights*—Proceedings, New York University Ninth Annual Institute on Federal Taxation, p. 505.

[13] *D. K. Caldwell v. Com'r*, District Court for Northern District of Texas, October, 1953.

[14] *P. G. Lake, Inc.*—Docket No. 48684.

The tax treatment of the proceeds of a "carved-out" oil payment is therefore far from a settled matter. Such "carved-out" oil payments should be avoided where the vendor wishes to be sure of capital gains treatment.

Reserved Oil Payment—The A-B-C Transaction

The courts have held that when oil leases are transferred in consideration of a cash payment and an oil payment to be satisfied from the property conveyed, the transaction is in part a sale for cash and in part a reservation of an economic interest in oil in place.[15] That is, the vendor is considered as never having sold that portion of the oil in place necessary to satisfy the oil payment. The Treasury agrees with these decisions.[16] After first recovering the tax basis of any depreciable equipment out of the cash payment received, the vendor's remaining basis is allocated between the interest sold and the interest retained in proportion to the fair market value of each.[17] The reservation of an oil payment does not prevent the treatment of gain realized on the cash sale of the equity interest as capital gain.[18] Also, the Treasury has ruled that the sale of an in-oil payment right, if such right constitutes the entire depletable interest of the vendor in the property, results in capital gain.[19]

The combination of these factors has made popular the so-called A-B-C transaction. "A," an operator, can sell his working interest rights to "C," retaining an oil payment and then sell the retained oil payment to "B." The entire sales price of both interests is treated as the proceeds from the sale of capital assets because at the time that "A" sold his oil payment, he had no other depletable economic interest in the property. "B," the holder of the oil payment, can borrow against it from a bank. The difference between the rate of return on the cost of the oil payment and the interest payable to the bank represents "B's" profit on the transaction. "C" can generally acquire the equity for a relatively small cash outlay.

There are many variations to the A-B-C transactions. For example, the purchase by "B" and "C" from "A" could be in a simultaneous transaction whereby it was agreed that the sale of the oil payment could not precede nor follow the sale of the operating rights but could become effective

[15] *Com'r v. Fleming* 82 F(2d) 324; *Cullen v. Com'r* 118 F(2d) 651.

[16] G. C. M. 22730, 1941-1 C. B. 214.

[17] *Columbia Oil & Gas Co. v. Com'r* 118 F (2d) 459; Kenneth G. Miller—*Oil & Gas Federal Income Taxation*—Second Edition, p. 166.

[18] *Cullen v. Com'r* 118 F(2d) 651.

[19] G. C. M. 24849, 1946-1 C. B. 66, I. T. 4003 supra.

only at the exact moment that both contracts became executed.[20]

Often, the leaseholder insists that his interest be purchased in toto, for cash. This can be done in several ways. For example, "B" can purchase "A's" entire interest and then assign the operating rights to "C," retaining the oil payment. Another method would be to have an intermediary purchase the property from the leaseholder and act as "A" in the A-B-C transaction. The intermediary could be a corporation formed for the purpose.

It does not appear that the Treasury is attacking A-B-C transactions except where "B" and "C" are not completely independent parties. The formation by "C" of an alter ego corporation to act as "B" and hold the oil payment and borrow against it from a bank can lead to an attack on the whole transaction.

The A-B-C transaction is by far the most popular method of financing the acquisition of producing properties because it has the most tax advantages. The original owner of the property receives his full sales price in cash and is taxed at capital gain rates. The holder of the oil payment is entitled to deductions for depletion and interest paid so that his taxable income is limited to his profit represented by the excess of the face value of the oil payment over cost and the interest differential. This income is taxable only as received. The acquiring operator obtains an equity in the property for a minimum cash outlay. As the share of the oil and gas reserved under the oil payment never becomes the property of the owner of the working interest, the proceeds from the sale of the oil used to satisfy the oil payment are never included in the gross income of the operator.[21] In operating the property, the working interest owner must bear the cost of lifting all the oil—the royalty oil, the oil payment oil and the working interest oil. It is accepted law that the operator does not have to capitalize the cost of lifting royalty oil.[22] Up to the present, there has been no attempt on the part of the Treasury Department to require the operator to capitalize the cost of lifting oil payment oil on A-B-C transactions. However, discussions with representatives of the Internal Revenue Service indicate that where the cost of lifting the oil necessary to satisfy the oil payment exceeds the net income from the property, the Treasury will require such excess to be capitalized as additional lease cost recoverable through de-

[20] James T. Williams, II—*Assignment of Leasehold Royalty and Oil Payment*—Second Annual Institute on Oil and Gas Law and Taxation, Southwestern Legal Foundation.

[21] *Commissioner v. Fleming* 82 F(2d) 324; G. C. M. 22730 supra, *Thomas* v. *Perkins* 301 U. S. 655.

[22] Regulations 111, Sec. 29.23 m-l.

pletion. The validity of such a requirement is doubtful but the general opinion is that in order to minimize the tax dangers to an operator, oil payments should not be payable out of so large a percentage of production as to eliminate all profit to the working interest during the period of the pay out.[23]

The only tax disadvantage to the A-B-C method is the fact that during the pay-out period of the oil payment, the deduction for depletion will be exceedingly small to the operator. Percentage depletion is limited to 50% of net income —usually nominal during this period—and cost depletion is computed on the basis of working interest oil produced against total working interest oil. Usually, during the pay-out period of the oil payment only a very small percentage of "working interest oil" is produced. For example, if the oil payment is payable out of 80% of production then only 20% of production during the pay-out period represents working interest oil.

The "Combination Oil Payment"—Partly Reserved—Partly Carved Out

Sometimes a property is assigned in exchange for a cash payment and an oil payment payable from a larger property than the one assigned. An example of this situation would be where there were two adjoining leases owned by different operators and one of the operators purchases the other lease for cash and an oil payment payable out of both leases. This transaction can take several forms. For example, if prior to the sale, the two tracts were unitized and one operator sold his interest in the unit, retaining an oil payment payable out of no greater fraction than the interest assigned, the transaction would be similar to the reserved oil payment discussed under the A-B-C transaction. If there is no unitization prior to the sale and one oil payment, payable out of both leases, is exchanged with cash for the working interest in one of the leases, the transaction would be considered to be an exchange of property and cash for property.[24] Although part of the oil necessary to satisfy the oil payment will be produced from the property assigned, the Internal Revenue Service would probably not consider this to be in any part a reserved oil payment. There are no rulings on this point but in one of the few decided cases, the Tax Court indicated that, when an oil payment is reserved out of a greater property than the interest assigned, no recognition will be given to the

[23] Harry C. Weeks—*Purchase of Oil and Gas Properties*—Third Annual Institute of Oil and Gas Law and Taxation, Southwestern Legal Foundation, p. 391.

[24] *John Vaccaro*—T. C. Memo Decision September 23, 1943; C. C. H. Decision 13516 (M).

fact that there is to some extent a reservation of oil.[25] Of course if a property were assigned for cash, a reserved oil payment and an oil payment out of other property, the transaction would be considered to be a reservation of an interest in property transferred for cash and other property.

The Treasury Department has always contended that the exchange of an oil payment for a working interest, royalty interest or any other interest extending over the life of the property represented an exchange of unlike properties and therefore a taxable transaction.[26] The Tax Court has supported this interpretation of the law.[27] If the Treasury is correct, then in those transactions in which property is deemed to be exchanged for other property plus cash, the assignor of the working interest realizes capital gain measured by the difference between his basis for the property and the sum of present value of the oil payment plus the cash received.[28] Moreover, the purchaser of the working interest would be deemed to have gain to the extent that the value of the property acquired exceeded its basis for the oil payment plus cash paid.[29]

[25] *Charles Burke*, 5 T. C. 1167.

[26] I. T. 4093, 1952-2 C. B. 130.

[27] *Midfield Oil & Gas Co.* 39 B. T. A. 1154; *Kay Kimbell, et al*, 41 B. T. A. 940; *Charles Burke* 5 T. C. 1167; *John Vaccaro* T. C. Memo, C. C. H. Decision 13516 (M).

[28] Idem.

[29] I. R. C. Section 111 (b).

In a very recent case, the Court of Appeals for the Fifth Circuit, reversing the District Court, held that both oil payments and overriding royalties were interests in land and therefore like properties and that therefore the exchange of one for the other was a tax-free transaction.[30] Although certiorari was not authorized, it is not known yet whether the Treasury Department will follow this decision. Should this case become established as the law, then the assignor of a working interest for cash and an oil payment not reserved from said working interest, will be deemed to have made an exchange of like properties with boot, in the nature of cash, received. Gain on the transaction will be recognized only to the extent of the cash received.[31]

The purchaser of the properties for cash and the oil payment should likewise be deemed to have made a tax-free exchange of cash and property for property.

Payments in Oil That Are Not "Oil Payments"

As used by the courts and in Treasury Department rulings, the terms "oil payment" or "in-oil payment" have a definite connotation.[32] There are many payments

[30] *Fleming v. Campbell*, C. C. A. 5th, No. 14338, June 26, 1953, 53-5 C. C. H., par. 9469.

[31] I. R. C. Sections 112 (b) 1 and 112 (c).

[32] *Anderson v. Helvering*, 310 U. S. 404; G. C. M. 24849, 1946-1 C. B. 66.

in oil which are not oil payments. When oil runs are assigned to a bank to pay off a loan, the bank is receiving its payment in oil but it does not have an "oil payment" because it does not have an economic interest in the oil in the ground. Sometimes a property is purchased under a contract whereby the purchaser agrees to pay a specified number of barrels of oil or the proceeds thereof for a specified period of years. This price is payable whether or not the property acquired produces sufficient oil to meet the purchase price. The obligation is definite, not contingent on production. The only thing indefinite is the ultimate amount. This is a payment in oil that is not an oil payment.

The seller realizes capital gain on the sale of his property, measured by the difference between his basis and the present value of the obligation calling for the payments in oil.[33] As the consideration will be payable over a period of years, with less than 30% thereof receivable in the first year the seller can elect to use the installment method, reporting in each year that portion of the total gain to be realized which is represented in the payment received.[34]

The purchaser has acquired an asset with its basis equal to the cost of the oil necessary to fulfill the terms of the purchase. One possible treatment would appear to be the capitalization, as cost of the property, of the present value of the contract to pay in oil, with the discount used in determining such value considered as interest expense as the obligation is liquidated.[35] The Treasury Department, however, would probably require the capitalization of an amount computed by multiplying the total number of barrels due under the contract by the current price of oil. In succeeding years, as oil is delivered in accordance with the terms of the contract, it is probable that the price of oil will be higher or lower than on the date of the execution of the contract. There does not seem to be any case directly in point which can be cited as authority for any specific method of handling the difference between the value of oil delivered and the amount originally set up as basis. The Treasury Department will probably require that such differences be treated as an adjustment to basis. However, oil is being used simply as a medium of exchange in this transaction and by analogy to cases on the handling of property purchased with foreign currency, there is authority for treating the differences between original price and actual cost as gain or loss in exchange without

[33] I. R. C. Section 111 (b).

[34] I. R. C. Section 44.

[35] *Kentucky Tobacco Products v. Lucas* 5 F(2d) 723.

any adjustment to basis.[36] Whatever course is taken, the treatment should be consistent from year to year. To avoid possible adjustment of tax returns upon examination, it might be advisable to procure a ruling from the Internal Revenue Service as to the proper method of handling these differences should there be any possibility of the discrepancy between original value and the current value of oil becoming substantial.

The Limited Working Interest

There is another type of A-B-C transaction in which a so-called "limited working interest" is used instead of an oil payment. "A," the leaseholder, sells the working interest to "B" and "C" under an agreement whereby "B" is to own and operate the property until he recovers his cost plus an agreed upon profit and then the working interest is to pass to "C." Sometimes "B" comes back into the picture for a fractional interest after "C" has recovered an agreed upon amount.

The tax consequences of a limited working interest transfer are comparatively simple. "A" having sold his entire interest in the property for cash, receives capital gains treatment of the proceeds of the sale. "B" receives ordinary income during the period in which he operates the property, being allowed as deductions therefrom all operating costs and the higher of cost or percentage depletion. "C" has no income or deductions until "B's" limited working interest expires. Thereafter "C" owns the property and reports income and deductions in the same manner as from any other producing property.

Either "B" or "C," or both, may mortgage their interests to a lending institution. Such a transaction is similar to any other mortgage loan, with deductions being allowed for interest paid but not for any payments made against the principle of the loan. Through the use of dummy corporations, it is often possible to have the limited working interests conveyed to the eventual "B" and "C" subject to a mortgage but without personal liability. While this restricts liability to the value of the property, it should not affect any of the tax consequences of the transaction.

Market Price Guarantees

In the various types of deferred payment transactions, the major portion of the funds necessary to complete the transaction is usually advanced by a bank, insurance company or educational institution. In most instances, the sole hope for recoupment of advances and realization of profit is dependent upon the production and sale of the oil in the property acquired. Modern, efficient production meth-

[36] *Joyce-Koebel Co.*, 6 B. T. A. 403, *Willard Helburn, Inc.* 20 T. C. No. 106 (1953).

ods and improved engineering techniques enable investors to procure accurate estimates of the reserves in the property but it is impossible to accurately forecast the future price of oil over the extended period often required to pay out the advances. As a result, lending or investing institutions sometimes require a guaranteed market for the oil necessary to satisfy oil payments or mortgage loans. This is provided by an oil purchase agreement wherein the entire production from the property is contracted for during the period of the pay-out of the obligation at the posted price in the field or an established minimum price, whichever is the higher. Sometimes, where the operator-equity owner is an integrated company, it contracts to purchase the production. At other times, a pipe line company or refinery makes the minimum price guarantee. In such cases, the oil purchaser is usually given the right to recoup excess payments made from oil produced after the oil payment or mortgage loan is satisfied. Sometimes the third party oil buyer makes the deal solely because it needs the oil and wishes to guarantee itself a source of supply. Often, the oil buyer required a share in the equity interest as consideration for making the guarantee. This can be handled in several ways. The oil buyer could join with "C," the operator, in acquiring the equity interest, either directly or through acquisition of shares in a corporation formed for that purpose. A fraction of the equity could be conveyed to the oil buyer with enjoyment to take effect after the pay-out of the oil payment or other prior interest or the oil purchaser could be given an option to acquire an interest in the property after the original obligation had been satisfied. These latter two methods might involve problems of valuation of the option or future interest acquired with an attempt upon the part of the Treasury to tax such value as current income to the recipient.[37]

Lease and Bond or Lease and Option Agreements

The "market price guarantee" relates solely to the price of the oil. If for any reason there is no production in a month, no payment is made in that month. For years, the mining industry has been using a combination lease, purchase and option agreement which provides for minimum payments, regardless of production, until a specified amount has been paid, or forfeiture of the property.[38] Agreements of this type could undoubtedly be adapted to the oil industry. For example, an operator could acquire an "option" to purchase a property at a stipulated price upon the pay-

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[37] *Belridge Oil Co.*, 11 B. T. A. 127.

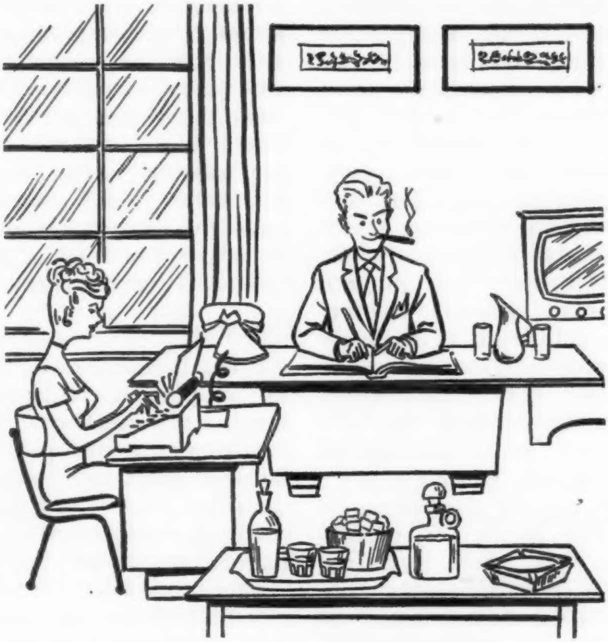
[38] G. C. M. 23999, 1943 C. B. 144.

ment of a small cash down payment. The operator would be entitled to operate the properties and would pay a specified amount per barrel of oil produced or a specified percentage of gross receipts to the lessee, with a guarantee of a minimum annual payment. The nonpayment of the minimum would result in the forfeiture of the operator's rights in the property but there would be no personal liability. All payments made by the operator would apply against the purchase price of the property and when the full price was paid the operator could exercise its option to acquire the property.

On the basis of the Treasury's ruling with respect to mineral properties, per barrel payments would be excludable from the operator's gross income but taxable to the lease owner as ordinary income subject to depletion. The cash down payment and any minimum payments would be capital expenditures by the operator and proceeds from the sale of a capital asset to the recipient. The lease owner could undoubtedly sell his interest in the property subject to the "lease and option agreement" and realize capital gain on the transaction in a manner similar to the sale of a reserved oil payment in the A-B-C transaction.

Conclusion

It must be emphasized that it is not the purpose of this paper to describe the mechanics whereby the various types of deferred payment plans can be put into operation. There are numerous modifications of each of the financing plans mentioned. Any method adopted should be tailored to fit individual needs, but only after all of the ramifications have been carefully reviewed by legal and accounting advisors.



Too much hospitality on the one hand . . . . .

Are You Ready for an Audit?*

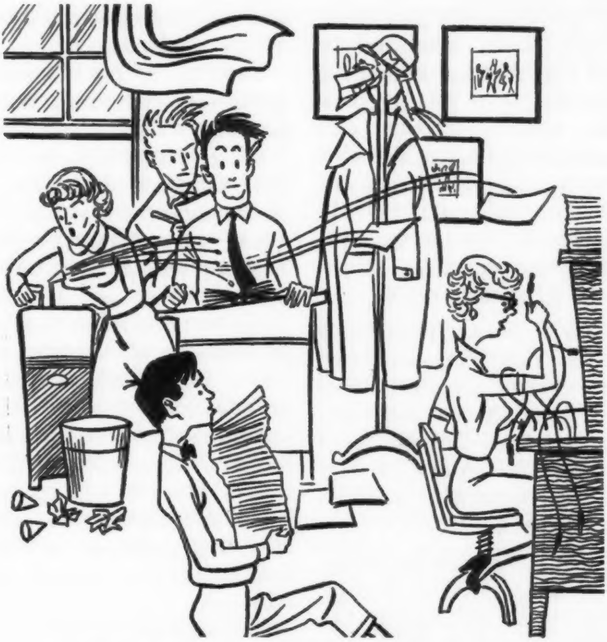
BY HERBERT G. BOWLES

Not long ago, a team of auditors arrived at a company's offices to begin work on the annual audit. Their search for the necessary records led them finally to the president who smilingly informed them that if they were successful in finding the records they wanted someone was going to get fired since he had ordered all of the records burned.

Burning the records is one way to prepare for the annual audit, but there are better ways. Even if it is not possible, in good conscience, to welcome the arrival of the auditors, they should at least be tolerated.

One of the aspects of the annual audit which is of persistent interest

*This article was published in the April 1953 issue of *Office Executive*.



. . . . . and complete disregard for physical comfort on the other . . . . . are two ways to assure that the visiting auditor will spend as little time as necessary on his work. But neither method is recommended.

to office executives is the amount of time which the auditors will devote to their work. Steps can be taken to assure that only the necessary minimum will be spent.

Assuming that the largest, most comfortable office space is reserved for the auditors; that wall, ceiling and carpet coloring are scientifically selected to provide psychic stimulation; that indirect lighting and air-conditioning are included, then you may feel that everything reasonable has been done to assure that the auditors spend as little time as possible on their work.

If, in addition, the most attractive and personable women employees are temporarily assigned to this space, at desks facing those of the auditors, fine Havana cigars, television sets and plenty of sophisticated magazines are supplied, the auditors may devote even less time to their work.

In sharp contrast to this hospitable approach is the frequent practice of housing the visiting

auditor back of the drinking fountain, where he is subjected to occasional sprinkling from erratic water pressure; or to the mail desk where he thumbs through cascading envelopes and struggles with wet sponges and scotch tape to protect his scattering papers. He is often asked to share space with the switchboard operator, or to work in the file storage vault.

Some offices, whose histories go back to the Gay Nineties, have preserved some of the high stools which will forever be identified with bookkeeping of that era. This furniture may be dusted off and placed at the disposal of auditors and tax examiners.

The ultimate disregard for physical comfort is to leave no desk or table space at all and require the auditor to write on the bent-over back of a junior assistant, or on his own lap or leaning against a window or wall. One might be tempted to conclude, at times, that the office manager shrewdly reasoned that the less comfortable the visiting examiner, the less likely his stay will be an unduly extended one.

Looking at it purely from the auditor's point of view, these techniques of discomfort may have a quite different result than the one hoped for. These fellows are resourceful. Attention to their physical comfort may be rewarded by some degree of restraint in their handling of the inevitable errors and inadequacies which their examinations disclose.

Comfort without luxury, convenience without coddling and access at all times are the normal housing needs of the auditor. The ideal which should be sought is to fit the newcomers into the office space and organization with the least disruption to normal operation.

No two businesses have identical problems in accommodating auditors. The suggestions which follow are pointed to an assumed industrial organization of medium size. If the inventory, cash and security counts are out of the way, the books are closed and statements have been taken off, probably the first things the auditor will want are—

1. A tour of the plant to observe manufacturing facilities, inventory handling, number of employees and general layout.

2. A copy of the general ledger trial balance. Time can be saved by arranging for a carbon copy of the trial balance to be prepared at the same time the usual month-end closing is made.

If inventory, cash and security counts are not out of the way, the auditor may wish to make an immediate count of cash and securities. This may be an extensive undertaking and cause some inconvenience because safe deposit vaults and cash boxes must be sealed until the count has been completed.

If currency is needed to avoid work stoppage, a temporary fund can be created.

If, upon commencing their work, the auditors do not volunteer a list of names of those who will be working on the audit, the office executive is in order to request it. Sometimes formal letters of introduction are desirable. For defense plant engagements, suitable identification papers are usually required.

At this time it is desirable to designate an office representative who will receive all questions from the auditors and an auditor-in-charge who will do likewise for audit personnel.

Frequently, an office will have highly confidential files and records, such as executive payrolls, bonus agreements and other contracts. Arrangements can be made for special attention to these matters by the auditor-in-charge, so that other staff auditors do not have access to the material.

This procedure will avert the likelihood that sundry suggestions and questions will be directed from sundry auditors to different office employees, with resulting confusion and misunderstanding. Some arrangement for telephone service should be made with the auditors.

Information is Needed

The auditor will want to know when accounts receivable will close and when customer statements will be ready to mail. He will appreciate being supplied with a permanent copy of the list of unpaid customer balances which lists them by month of origin. He may ask for extra copies of certain statements to customers which he selects for circularization.

He will probably want letters prepared by you for all bank accounts requesting confirmation of balances at both the audit date and a later "cut-off" date (with request for bank statement and cleared checks), and requesting information as to loans, indebtedness, interest, collateral, guarantees and contingent liabilities, items held for collection and letters of credit.

You may think it odd that the auditor wants you to prepare and sign these letters, but won't trust you to mail them. This is a peculiarity which you will become accustomed to. There is nothing personal in it. He does trust you. If he did not, he would of necessity be required to revise and greatly extend his entire audit program, if not withdraw from the engagement altogether. Modern auditing procedures would not be possible except for the reliance placed by auditors upon good faith on the part of their clients.

If physical inventories have not been taken but are planned, the auditor will want to know all about it: how many locations, how many plant men at each location, when and for how long. He will inquire about inventory instruction. They

are often prepared in writing and in some detail.

Some of the most difficult problems in audit substantiation of inventories arise from inability to determine whether an incoming or outgoing shipment during the inventory count has been included or excluded.

The auditors may urge the use of prenumbered count slips with provision for signatures by count crews, and a system of check off and responsibility for count slips issued, used and returned unused.

Unless this is the first audit, the beginning stages are now pretty much in hand. If it is a first audit, the auditor probably will want to see all internal and audited financial statements as well as general records from inception of the business, including articles of incorporation and by-laws, stock certificates, stock transfer journals and ledgers, permits to issue stock, corporate minutes and contracts, agreements and other documents significant to the history of the company.

Whether it is a first audit or not, foresight in providing copies of minutes of stockholders' and directors' meetings, documents referred to therein and related exhibits for the auditor may save considerable amounts of his valuable time and your hard-earned dollars.

This is not to say that auditors should automatically be provided with all such data; frequently minutes and contracts contain information of a highly confidential character.

Once the auditor has been installed, housed and has had his immediate appetite satisfied for matters requiring early disposal, attention should be given to his regular feeding thereafter.

If inventories and receivables are large in number of items, arrangements can be made to work upon listing, assembly and recapitulation of them in sections. In that way, he won't find himself in the unhappy position of being handed a six-day testing job 24 hours before he is due to button the job up in order to meet an early report delivery date.

Something has to give in these situations and it's usually the report delivery date. Auditors will not issue reports until their work is done, and for very persuasive reasons. Report delivery delays can lead to repercussions, with a fair chance that the onus will fall on the office manager (considering the side-stepping skill acquired by auditors during similar experiences).

Preparation for Visit

Preparation for the auditor's visit may include cleaning up the general trial balance by removing odds and ends in accounts, which might be grouped within the term "suspense accounts" and buried quietly and without ceremony in sundry receivables or payables deep in the middle of detailed ledgers or

voucher files. This is something of a gamble and it may pay off. But if it doesn't, the office manager may find that it would have saved time by doing the necessary work of finding out what these accounts really were and properly classifying them in the first place.

Some attention should be given to reviewing details of properties, particularly movable and old equipment, which is largely depreciated. It is disconcerting to an office manager to be confronted by an auditor who has found out that a particular piece of machinery was sold, junked, moved to another location or is no longer in use and wants to know how come the records were not adjusted. It shakes the office manager's confidence in the reliability of routine procedures which he had expected would have kept him informed.

In a pinch, the office manager can fall back on materiality and explain that, while he was aware of the existence of some carelessness and minor breakdowns in established procedures (after all, the only people that don't make mistakes are those that don't do anything), he really does not think that the error is sufficiently significant to make much of a fuss over—looking at the over-all picture of the company's vast operations, that is. This routine may work, but if it doesn't, further argument with the auditor will be a waste of his time and your company's money. Let it go for later conference between audit and company principals, when audit adjustments will be discussed in one package. Incidentally, the office manager might give some thought to preparing himself for this conference.

Sometime during the examination the auditor may want to test source documents, trace the initial recording of typical transactions to their final resting place in the accounts, note practices and procedures followed in accumulating and summarizing source data and give some attention to the system, if any, of internal control. This work will require or will lead to questions by the auditor as to just what accounting practices and procedures were established and are supposed to be in effect, and just what functions involved in the voluminous paperwork are supposed to be performed by what member of the office organization and when.

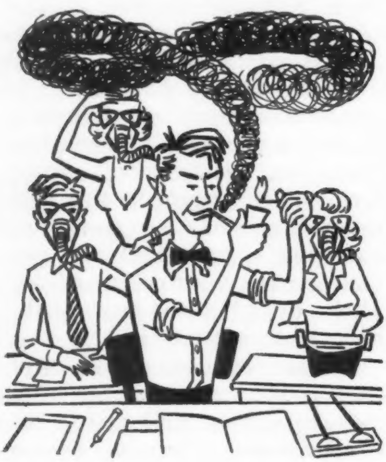
It is extremely helpful in this event to have a flow chart, an organization chart and at least a skeleton procedural manual on hand. Auditors consider it a kindness to be supplied with this material, although they themselves have been characterized by a certain prominent journalist as being wholly devoid of any trace of the milk of human kindness.

If a procedural manual and flow chart is not maintained, an office manager may be subjected to the embarrassment of learning, from a

clerk's own lips and in the presence of the auditor, that the clerk didn't know and didn't remember ever having been told that he was supposed to prove the totals on a certain basic form, that he had been working at his present desk job for three years in the same state of uncomprehension.

There is a constant tendency for accounting systems of internal control to deteriorate; affirmative action must be taken to avert serious consequences. Deterioration sets in quite naturally. An innocent error of omission is made through oversight and later discovered by a subordinate who notes that it was not detected by supervisors. It is only a short step to intentionally drop all similar functions until supervision catches up.

If the auditor finds serious defects in the system of internal control, he will usually extend the scope and penetration of tests and sampling otherwise required, with consequent enlargement of his fee.



It will often be found that the assignment of an office boy or junior clerk to assist the auditors will expedite completion of their work. This is particularly true when vendors' invoices must be found in the files and inspected. The assistant will also be helpful in locating and transporting many other necessary documents. If the office manager has temporarily idle employees, he could arrange to have the auditors' work set up and made ready in advance, thus saving time and reducing costs.

To whatever extent he may be able to organize, as monthly routines, the several steps in preparation for the audit, the office manager approaches the ideal position of being always prepared for the auditor. This happy situation is becoming more prevalent and is to be encouraged. At the same time, it is becoming more and more common to arrange for audits on a continuous basis, or annually early in the year, so that the auditors may visit their clients at interim dates during the year when most convenient to all concerned, and may more expeditiously program and complete the work.

Auditors Are Human

Auditors are people and, therefore, possess certain human charac-

teristics, including the tendency to acquire eccentricities. Certain published opinions, with a whimsical touch, to the effect that auditors have ice water in their veins, are not to be taken seriously. The fact is, as reported by Red Cross Blood Centers, many CPA's have nothing in their veins at all.

If you should be unfortunate enough to inherit an auditor with a huge pipe and a taste for tobacco unfortified with chlorophyll, there are courses of action open to you. You may wait patiently while snide remarks from women employees, progressively more pointed, fall upon his deaf ears. You may then approach him directly on the subject or phone his office for a replacement.

If these measures are not effective, your only recourse is to get in touch with a manufacturer of devices for filtering foreign material from the air. The entire office force can be equipped with suitable gas masks of the most modern design. The girls may even select their own colors in plastic cases. The scene in your office the next day should be one that will live in your memory for a long, long time.

The New Partners

(*Continued from page 3*)

In September, 1936, Mr. Zug joined the staff of the Philadelphia office, and received the C.P.A. certificate in Pennsylvania in 1940. He has been active in the affairs of the Pennsylvania Institute of Certified Public Accountants, and last year he served as a member of the Council and as Chairman of the Philadelphia Chapter. He is also a member of the American Institute of Accountants, National Association of Cost Accountants and the American Accounting Association. Mr. Zug has contributed a number of technical papers to accounting publications.

Mr. Zug is Treasurer and a member of the Board of Directors of Children's Service, Inc., a Community Fund agency devoted to the care of foster children in Philadelphia. For two years he served as President of the Harvard Business School Club of Philadelphia, and he is currently on the Executive Committee of the Harvard Club of Philadelphia, and also Chairman of a Committee for the Twentieth Anniversary of his class at Dickinson College. He is a member of The Racquet Club of Philadelphia and Merion Cricket Club.

Mr. Zug and his wife, son and daughter, make their home in Haverford, Pennsylvania.

Tributes to Colonel Montgomery

The following expressions of esteem were received too late to be included in the special memorial issue of the JOURNAL dedicated to the late Colonel R. H. Montgomery:

American Institute of Accountants

(Resolution adopted by the membership at the Annual Meeting held in October, 1953.)

The accounting profession in the United States will remain forever in the debt of Colonel Robert H. Montgomery for his countless contributions to its progress. He was a pioneer in the development of the professional accounting organizations. He was largely responsible for the existence today of one national organization of certified public accountants. He was a pioneer in the development of an American literature of accountancy—notably through organization of *The Journal of Accountancy* and his books in the fields of auditing and taxation. He helped to promote and supported accounting education at the collegiate level, the international congresses on accounting, and many other useful projects.

By his example of vigor, industry, integrity, and courage; by his devotion to his profession, by his eagerness to fraternize with his fellow accountants, he provided inspiration and leadership which greatly accelerated the growth of our young profession to its present honorable status.

For all this, his life, and his work, we solemnly record our gratitude.

The Canadian Chartered Accountant

(Extracts from obituary, November, 1953 issue.)

Although he was not a member of any of the Institutes of Chartered Accountants in Canada, Col. Robert H. Montgomery who died last May was such an outstanding figure in the accounting profession that it is fitting to pay tribute to him in the columns of this journal.

Most people will associate him as author of the text AUDITING THEORY AND PRACTICE which he first brought out in 1912 and which was later republished in several revised editions. He also wrote INCOME TAX PROCEDURE and FEDERAL TAXES ON ESTATES AND GIFTS, both classics in their respective fields.

Together with the late George Wilkinson he promoted the first International Congress of Accountants which took place in St. Louis in 1904, and attended the subsequent congresses regularly.

It is undoubtedly true that there is scarcely a student or practitioner of accounting in the United States and Canada today who is not indebted in some way to the contribution which Robert H. Montgomery made to his chosen profession.

The L. R. B. & M. Journal

Published by Lybrand, Ross Bros. & Montgomery, for distribution to members and employees of the firm.

The purpose of this journal is to communicate to every member of the staff and office, plans and accomplishments of the firm; to provide a medium for the exchange of suggestions and ideas for improvements; to encourage and maintain a proper spirit of cooperation and interest, and to help in the solution of common problems.

The 1953 Firm Meeting

The firm meeting for 1953 was held at Absecon, N. J., from September 28 to October 2. Present were two hundred twelve members of the firm and staff and guests. The meeting afforded opportunities for renewing old friendships and discussing mutual problems, as well as enjoying the golfing and

(*Continued on page 30*)

Notes

Baltimore Office

Mr. Harold Chinlund has been elected to the Board of Managers of the Metropolitan Community Branch of the YMCA, of which Board Mr. Staub has been chairman for the past two years. Mr. Staub is also serving as vice-president of the Maryland Association of Certified Public Accountants. Mr. Blum is continuing as an instructor in accounting at the University of Baltimore.

Birmingham Office

Mr. Charles E. Davis became a member of the Twenty-Five-Year Club in September, 1953. Mr. Davis became associated with the firm soon after his graduation from Princeton in 1925, and served successively in the New York, Atlanta and Birmingham offices.

Boston Office

Fine summer weather greeted the Boston office personnel and guests at the 1953 annual outing held on June 12 at Mayflower Hotel, Manomet Point, Plymouth, Massachusetts. Golf, swimming, tennis and softball were among the activities of the day, and luncheon was served at midday. Following the dinner in the evening, greetings were extended by Mr. Perry, and awards were made for sports excellence. There was a musical and dramatic entertainment by members of the staff followed by dancing and bridge to complete a thoroughly enjoyable day.

Mr. J. B. Fyffe has been appointed to the Committee on Ethics of the Massachusetts Society of CPAs for the coming year.

Mr. H. Stuetzer, Jr. was a co-chairman of the joint Committee on Arrangements for the New England Dinner on June 22 for the new Commissioner of Internal Revenue, T. Coleman Andrews. The dinner was sponsored jointly by the Massachusetts Society of CPAs, Massachusetts Bar Association, Boston Bar Association, Boston Chapter of the Tax Executives Institute and the Boston Control of the Controllers Institute.

Massachusetts C.P.A. certificates have been received by Vincent R. Collins, Joseph G. Doolin and Joseph W. West.

Chicago Office

The third annual Chicago Office Golf Outing was held on Thursday, September 3, 1953, at the Calumet Country Club. There were 57 present, 37 of whom played golf. Unfortunately, Mr. Sinclair was unable to be present to make the presentation of prizes. Mr. Burke

did a good job as a "pinch hitter." The out-of-town guests included Mr. Edmund A. Staub from Baltimore, Mr. Thomas W. Snowden from St. Louis, Mr. Albert H. Degener from Tulsa, Mr. Leo V. Tinkham and Mr. Robert W. Myers from Rockford. Mr. Clarence W. Schelb took the low gross prize; Mr. John W. Eichman the low net, with Mr. P. J. D'Amour and Mr. C. J. Gansloser close on his heels. Mr. Staub won in the two-man partner competition by a small margin over Mr. Burke.

Cleveland Office

Mr. George B. Talmage addressed a meeting of the Cleveland Chapter of the National Association of Cost Accountants on November 3 on Costing Fixed Assets—For Federal Tax Deductions and Government Contract Costs. Mr. Talmage talked on the same subject at a meeting of the Akron Chapter of N. A. C. A. a week earlier.

Mr. Noell has been reappointed as a member of the Committee on National Defense of the American Institute of Accountants.

Mr. Robert Homan has received his C. P. A. certificate from the State of Ohio.

Dallas Office

Mr. G. W. Welsch spoke at the annual meeting of the Petroleum Institute in Chicago on Acquiring Properties through Oil Payments and Related Methods.

Detroit Office

Following are the committee appointments of Detroit office partners and staff of the Michigan Association of Certified Public Accountants for the year 1953-54:

Mr. Russell—Chairman, Legislation Committee

Mr. Righter—Chairman, Personnel Committee

Mr. McCullough—Member of Committee on State Taxation

Mr. Hobbs—Member of Accounting and Auditing Procedure Committee

Robert L. Williams—Chairman, Committee on Programs

John C. Padgett—Member of Committee on Relations with Educators

Harry F. Spengler—Member of Committee on Professional Education

Norman A. Bolz—Member of Publications Committee

Laurence J. Wilson—Member of Committee on Federal Taxation

Messrs. Ned P. Macaddino and H. Q. Wasson passed the May, 1953 C. P. A. examinations and three staff members, Messrs. J. F. Loughlin, G. R. Sykes and S. P. Bocknek, received Certificates of Examination.

Los Angeles Office

Mr. Warner spoke at a Seminar with Bankers, California Society of Certified Public Accountants, U. S. C.; also to the Long Beach

Chapter, California Society of Certified Public Accountants, at Long Beach.

Mr. Bowles attended the Annual Conferment Luncheon, Chartered Life Underwriters, Ambassador Hotel, as the delegate of the Los Angeles Chapter, California Society of Certified Public Accountants.

Mr. Anglea attended the Annual Conference, Merchants and Manufacturers Association, Palm Springs, as a delegate.

Mr. Vournas was a delegate to the Graduate Study Conference, California Society of CertifiedPublic Accountants, at Stanford University.

Louisville Office

Mr. Harold W. Glore has been appointed chairman of the committee on Accounting and Auditing Procedure of the Kentucky Society of Certified Public Accountants for the current year. Other appointments to committees were: Messrs. W. R. Hindman, Education; Louis S. Sorbo, Federal Taxation; J. Wesley Huss, Professional Ethics; and J. Martin Conder, Publications.

Mr. Woodrow W. Pitzer has obtained his Kentucky C. P. A. certificate.

Mr. Huss spoke at the annual meeting of the American Institute of Accountants in Chicago on The Employment of a State Society Executive.

New York Office

Mr. R. G. Ankers recently filled the following speaking engagements: The Michigan Association of Certified Public Accountants on The Personnel Problem Confronting Practicing C. P. A.'s; Lehigh University Accounting Society on The Public Accounting Profession; the Mid-Hudson Chapter of the National Association of Cost Accountants on The Selling Job of the Accountant.

Mr. Richardson spoke at the Third Annual Tulane Tax Institute at New Orleans, La., on the subject Planning for Maximum Use of Operating Loss Deductions.

Mr. Bardes spoke to the Long Island Chapter of N. A. C. A., November 24, 1953 on Current Changes in Federal Taxes.

Mr. Schaffer is chairman of a special committee of the American Institute of Accountants to establish sound accounting principles for income tax purposes.

Philadelphia Office

Mr. Edward F. Habermehl was a member of a panel conducted by the Philadelphia Chapter of the Pennsylvania Institute of Certified Public Accountants on the evening of September 16, 1953. The subject of the discussion was the Pennsylvania Sales Tax. Mr. Petty was a panel member at the November 12 meeting, the subject of which was Uses of Duplicating Equipment.

Mr. Mahon recently spoke before the following groups: The Annual Convention of Pennsylvania Newspaper Publishers Association, Harrisburg, on The Effect of Estate Taxes on Owners of Closely-Held Corporations; St. Louis Chapter of National Association of Cost Accountants—Business Tax Troubles; Philadelphia Life Insurance and Trust Council—The Accountants and Estate Planning.

Pittsburgh Office

Mr. James E. Gelbert spoke on Dissolutions and Liquidations at the Tax Meeting held Monday, November 9, 1953, sponsored by the Philadelphia Chapter of the Pennsylvania Institute of C. P. A.'s.

San Francisco Office

The San Francisco office is represented in the year's activities of the San Francisco Chapter and California State Society of Certified Public Accountants as follows:

Wm. Giles—State society vice president; chairman, state society committee on cooperation with state government; member of San Francisco Chapter committee on professional conduct

Robert Buchanan—Member San Francisco Chapter committee on taxation

Floyd Karg—Member San Francisco Chapter advisory committee on practitioners' problems

C. J. McDowell—Member San Francisco Chapter committee on governmental accounting and auditing

Richard Sims—Member San Francisco Chapter committees on meetings and programs and on public relations

Mr. Robert Buchanan spoke on Changes and Reaffirmation of Policy Reflected in Recent Bureau of Internal Revenue Rulings at the September meeting of the San Francisco chapter of the Tax Executives Institute.

Mr. Martin Hanlon was one of the speakers at the tax accounting conference sponsored by the California Society of Certified Public Accountants and the University of California, held in San Francisco on November 2 and 3 and in Los Angeles on November 5 and 6. His subject was Sales of Depreciable Assets.

Mr. Floyd Karg spoke on The Internal Auditor and Tax Savings Possibilities at the November meeting of the San Francisco Chapter of the Institute of Internal Auditors.

Mr. Wesley De Sellem is a member of the budget study committee for family and child welfare agencies of the San Francisco Community Chest.

St. Louis Office

The following members of the St. Louis office are currently serving on committees of the Missouri Society of Certified Public Accountants:

Mr. Thomas J. Snowden—Committee on Professional Ethics and a member of council

Mr. Kermit M. Pennington—Committee on Cooperation with State Board of Accountancy and First Vice President of the St. Louis Chapter

Mr. E. F. J. Meyer is a member of the Audit Committee of the St. Louis Control of the Controller's Institute of America and is also teaching two phases of a C. P. A. Coaching Course at St. Louis University.

Mr. Thomas J. Snowden acted as meeting chairman of the October 20, 1953 meeting of the St. Louis Chapter of N. A. C. A. at which Mr. James J. Mahon, Jr. spoke on the subject, The Effect of Taxes on Business Planning.

Mr. Kermit M. Pennington is instructing a class in Machine Accounting Methods at Washington University.

Editorials

(*Continued from page 25*)

other facilities available. The Lybrand Cup was won for the ensuing year by Mr. Lenhart.

Mark E. Richardson

At the 66th Annual Meeting of the American Institute of Accountants held in October at Chicago, Illinois, Mr. Mark E. Richardson was presented with one of the two Annual Awards for outstanding service to the accounting profession, and for his achievements in the field of federal taxation. The citation, which will appear in full in the next issue of the JOURNAL, stated "His writings and editorial work on taxation, though not always signed, are well known, voluminous and accepted authority."

Lybrand, Ross Bros. & Montgomery

Offices

Cities	*Addresses*
BALTIMORE 2	First National Bank Building
BIRMINGHAM 2	First National Building
BOSTON 10	80 Federal Street
CHICAGO 4	231 South LaSalle Street
CINCINNATI 2	Carew Tower
CLEVELAND 14	Union Commerce Building
DALLAS 1	First National Bank Building
DETROIT 26	Book Building
HOUSTON 2	1114 Texas Avenue
LOS ANGELES 13	510 South Spring Street
LOUISVILLE 2	Heyburn Building
NEW YORK 4	90 Broad Street
PHILADELPHIA 2	Packard Building
PITTSBURGH 22	Oliver Building
ROCKFORD, ILL.	119 North Church Street
SAN FRANCISCO 4	100 Bush Street
SAINT LOUIS 1	411 North Seventh Street
SEATTLE 1	Skinner Building
TULSA 3	First National Building
WASHINGTON 5	Investment Building

EUROPE

LONDON, ENGLAND	3 St. James's Square, S. W. 1
PARIS 1, FRANCE	39 Rue Cambon